

Internal Revenue Service

Department of the Treasury

District
Director

Person to Contact.

Telephone Number.

Refer Reply to:

Date:

JUL 31 1984

Dear Applicant:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code of 1954.

The information submitted discloses that you were organized under a Charter and Bylaws effective [REDACTED].

According to your Charter, "[REDACTED] is formed to promote the general business interest of the merchants of the Center; to encourage its members to deal fairly and courteously with their customers, to sell their merchandise or services at fair prices, to follow ethical business standards, to assist the business of the tenants by sales promotions and advertising, and specifically to help the interests of Association members."

[REDACTED] is the operating entity that coordinates group activities on behalf of [REDACTED] merchants, [REDACTED] and [REDACTED] (Agents for [REDACTED].)

Only proprietors, partnerships or corporations carrying out businesses or professions, or the owners of real property within the perimeter of [REDACTED] are eligible to be Active Members. Membership applications are subject to approval by a majority of the Board of Trustees. Any individual, partnership or corporation with a legitimate interest in the objectives of the Association may become Associate Members. There is no Associate Member at present.

The merchants pay monthly dues based on the amount of space leased, and the General Partnership contributes an amount equal to [REDACTED] of the total payable by the merchants. The income is used to pay for advertisements promoting the center, such as newspaper ads, radio advertising, direct mail fliers, and promotional items such as balloon rides and drawing prizes.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Date	7/1/84	7/1/84		7/31/84			

[REDACTED]

The merchants who lease space in the Center are not all required to become members. A few of the merchants do not have membership in the Association as a requirement in their lease contract. However, in your advertising and promotional activities, you try to mention the name of the merchants' business or their products or services, whether or not they are members.

All members are expected to participate in all [REDACTED] promotions to the best of their ability depending on the season of the year and type of Center promotion being held. All shops in the Center must observe certain designated minimum daily shopping hours. Merchants who do not observe the minimum shopping hours are subject to a fine. Extended shopping hours may be mandated by the Merchants Association for Christmas shopping period, other special periods, and special events.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues, chambers of commerce, and boards of trade not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such interest and not to engage in a regular business of a type ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade, and its activities should be directed to the improvements of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons.

In the case of a chamber of commerce or similar organization, the common business interest is usually the general economic welfare of a community. Membership is voluntary and open generally to all business and professional persons in the community. Trade associations or business leagues are similar to chambers of commerce or boards of trade, except that they serve only the common business interests of a single line of business or of the members of closely related lines of business within a single industry.

In Revenue Ruling 64-315, 1964-2 C.B. 147, an association of merchants whose businesses constitute a shopping center expends its funds and engages exclusively in advertising in various newspapers and on television and radio in order to attract customers to the shopping center. This advertising contains the names of member merchants and their merchandise. Held, the organization is not entitled to exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code of 1954.

[REDACTED]

The organization's activities consist of publishing a "shopping news", advertising in other community publications, sponsorship of commercial advertising on television and radio, and certain promotions designed to attract shoppers to the shopping center. The shopping news consists primarily of advertising by individual member merchants who pay for their own advertisements. The part of the shopping news which advertises the shopping center as a whole also frequently lists the names of its member merchants who are located within the shopping center. Most of the other advertising carried in community publications contains the names of individual merchants. Also some of the radio and television commercials occasionally mention the name of a member merchant. This latter type of advertising is paid for with association funds. The association's income is derived from assessments paid by the merchants and landlords of the shopping center. The expense of publishing the shopping news represents approximately [REDACTED] percent of the association's expenditures, the balance of the expenses being expended for other costs of advertising, promotional materials and expenses, office supplies, gift certificates, and special decorations, etc.

The Revenue Ruling further states that for an organization to meet the requirements for exemption as a chamber of commerce or business league within the meaning of the Code and regulations, the advertising in which the organization engages must benefit business in the community generally, or an industry as a whole. In summary, the Revenue Ruling states that the advertising activities under the circumstances described above, constitutes the performance of particular services for members rather than an activity directed to the improvement of business conditions generally as required by the applicable regulations. Thus the organization does not qualify for exemption.

In Revenue Ruling 73-411 1973-2 U.S.T.C. 180, it is held that a shopping center merchants' association whose membership is restricted to and required of the tenants of a one-owner shopping center and their common lessor, and whose activities are directed to promoting the general business interests of its members, does not qualify as a business league or chamber of commerce under section 501(c)(6) of the Code.

Your situation is similar to that described in the aforementioned Revenue Ruling 64-315. Your primary activities is to attract shoppers to the shopping center by advertising and sponsoring promotional activities. Your advertisements mention the names of the center's merchants. Such activity constitutes the performance of particular services for members rather than an activity directed to the improvement of business conditions in general for the entire community.

[REDACTED]

Your circumstances are also similar to those described in Revenue Ruling 73-411 in that with a few exceptions, membership in your association is imposed by the owner of the Center as a matter of contract in leasing space in the Center. Membership is not completely voluntary in the sense that the members are free to join or not to join depending upon their interest in the business community. Both the almost compulsory membership feature of your association and the limitation of its membership to the tenants and owner of the Center are directly related to the owner-tenant relationship of the parties involved. The Association's activities thus serves to facilitate the owner's management of the real estate, and to benefit the tenants of your particular center only. To the extent that they serve such purposes, they are activities of a landlord-tenant association. They are not activities of a board of trade or a business league directed at improvement of business conditions of one or more lines of business, nor are the activities characteristic of a chamber of commerce directed to improving the business conditions of the community as a whole.

Accordingly, we hold that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(6) of the Code. You are required to file income tax returns annually with your District director.

If you are in agreement with this proposed determination, we request that you sign and return the enclosed Agreement Form 6018. Please note the instructions for signing on the reverse side of this form.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 922. You will then be contacted to arrange a date for a hearing. The hearing may be held at the office of Regional Director of Appeals or, if you request, at a mutually convenient District Office. A self-addressed envelope is enclosed.

Sincerely yours,

[REDACTED]
District Director

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